


2010 REGULAR SESSION  
ACTUARIAL NOTE SB 119

<b>Senate Bill 119 SLS 10RS-475 Enrolled</b>  <b>Author:</b> <b>Senator D. A. "Butch" Gautreaux</b> <b>Date: June 15, 2010</b>  <b>LLA Note SB 119.03</b>  <b>Organizations Affected:</b> <b>Parochial Employees' Retirement System</b>  <b>EN ACTUARIAL SAVINGS APV</b>	<b>The Note was prepared by the Actuarial Services Department of the Office of the Legislative Auditor.</b>   <b>David K. Greer, CPA</b> <b>Assistant Legislative Auditor and</b> <b>Director of Performance Audit</b> <b>and Actuarial Services</b>
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**Bill Header:** PAROCHIAL EMPLOYEES RETIREMENT. Provides for funding of the Parochial Employees' Retirement System.

**Cost Summary:**

Actuarial Cost/(Savings) to Retirement Systems and OGB	Small Savings, See Actuarial Analysis Below
Total Five Year Fiscal Cost	
Expenditures	Small Increase, See Fiscal Analysis Below
Revenues	Small Increase, See Fiscal Analysis Below

**Estimated Actuarial Impact:**

The chart below shows the estimated increase/(decrease) in the actuarial value of benefits, if any, attributable to the proposed legislation. Note: it includes the present value cost of fiscal costs associated with benefit changes. It does **not** include present value costs associated with other fiscal concerns.

	<b>Increase (Decrease) in The Actuarial Present Value</b>
<b>Actuarial Cost (Savings) to:</b>	
All Louisiana public retirement systems	Small Savings, See Actuarial Analysis Below
Other Post Retirement Benefits	\$0
Total	Small Savings, See Actuarial Analysis Below

**Estimated Fiscal Impact:**

The chart below shows the estimated fiscal impact of the proposed legislation. This represents the effect on cash flows for government entities including the retirement systems and the Office of Group Benefits. Note: it includes the cash flow effect of the benefit changes on the retirement systems, the Office of Group Benefits, as well as other fiscal concerns.

EXPENDITURES	2010-11	2011-12	2012-13	2013-14	2014-15	5 Year Total
State General Fund	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Agy Self Generated	INCREASE	INCREASE	INCREASE	INCREASE	INCREASE	INCREASE
Stat Deds/Other	0	0	0	0	0	0
Federal Funds	0	0	0	0	0	0
Local Funds	INCREASE	INCREASE	INCREASE	INCREASE	INCREASE	INCREASE
Annual Total	INCREASE	INCREASE	INCREASE	INCREASE	INCREASE	INCREASE

REVENUES	2010-11	2011-12	2012-13	2013-14	2014-15	5 Year Total
State General Fund	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Agy Self Generated	INCREASE	INCREASE	INCREASE	INCREASE	INCREASE	INCREASE
Stat Deds/Other	0	0	0	0	0	0
Federal Funds	0	0	0	0	0	0
Local Funds	0	0	0	0	0	0
Annual Total	INCREASE	INCREASE	INCREASE	INCREASE	INCREASE	INCREASE

**Bill Information:**

**Current Law**

Under current law, a person whose membership in the Parochial Employees' Retirement System (PERS) is mandatory as a condition of employment but who was not enrolled due to administrative error may receive credit for the time he was otherwise eligible for membership. To receive the credit, the member and his employer must pay to PERS the greater of:

1. An amount equal to the employee and employer contributions which would have been paid had he been enrolled at the time of employment, plus interest at 7.0%, or

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2. An amount which, on an actuarial basis, totally offsets the increase in accrued liability of the system resulting from the granting of such credit to the member.

Current law does not provide for the crediting of missed compensation due to administrative error. Nor does it provide for a reduction in service credit if contributions had not been made on the full amount of income.

Under current law, plan expenses are paid out of 13 separate sub-funds within PERS, including an expense fund.

Current law provides that employee and employer contributions shall be delinquent when not received by the system within 15 days after the close of each fiscal quarter containing the due dates determined by the Board and may be recovered from the employer in court.

### Proposed Law

SB 119 provides that to receive credit for service missed due to administrative error, the member and his employer must pay to PERS the greater of

1. An amount equal to the employee and employer contributions which would have been paid had he been enrolled at the time of employment, plus interest at *the actuarial valuation rate*, or
2. An amount which, on an actuarial basis, totally offsets the increase in accrued liability of the system resulting from the granting of such credit to the member.

SB 119 provides a means by which a member can receive credit for his full amount of compensation if compensation had been under reported due to administrative error. Such credit will be granted if the member and his employer pay to PERS the greater of:

1. An amount equal to the employee and employer contributions which would have been paid had the full compensation amount been reported, plus interest at *the actuarial valuation rate*, or
2. An amount which, on an actuarial basis, totally offsets the increase in accrued liability of the system resulting from the granting of such credit to the member.

It also provides that should the member and his employer fail to pay contributions on the full amount of compensation, benefit service credits will be reduced on a pro-rata basis.

SB 119 eliminates the expense fund and mandates for the payment of expenses out of sub-funds associated with Plan A, Plan B and Plan C.

Under SB 119, delinquent employee and employer contributions shall be due immediately. Delinquent contributions will be charged interest at the rate of 1.5% per month compounded monthly. If the additional accrued liability associated with delinquent contributions is greater than the delinquent amount plus interest, the board may elect to charge the delinquent employee and employer an amount equal to the additional accrued liability.

### Implications of the Proposed Changes

As a result of this legislation:

1. Members will receive compensation and service credits that correspond to the contributions that should have been made by the employee and employer and will receive reduced service credits if the employee and employer fail to make appropriate contributions.
2. Actuarial losses to PERS due to delinquent payments will be reduced.

### Cost Analysis

#### Analysis of Actuarial Costs

##### Retirement Systems

SB 119 will affect PERS and its participating employers in the following manner:

1. Additional benefit accruals will be granted by PERS.
2. The accrued liability of PERS will increase.
3. Employer and employee contributions to PERS to pay for the additional credits will offset the additional benefits granted and the additional accrued liability that will be incurred.
4. The pattern of actuarial losses resulting from underpayment of contributions will be eliminated.
5. Ultimately, the employer contribution rate should decrease as the losses are eliminated.

SB 119 has a positive financial and actuarial effect on PERS.

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Other Post Retirement Benefits

There are no actuarial costs for other post employment retirement benefits from this bill.

Analysis of Fiscal Costs

There were no administrative costs noted by PERS in connection SB 119. Other fiscal implications are summarized below:

- 1. Additional employer and employee contributions will be made to PERS during the five year measurement period. This will increase expenditures for employers (local funds) and increase revenue for PERS (agency self generated funds).
- 2. Retirement benefits paid from PERS will also increase. This will increase expenditures for PERS from agency self generated funds. However during the five year period contribution increases (PERS revenues) will be larger than benefit payment increases (PERS expenditures).

Dual Referral

Senate

- ☐ 13.5.1 ≥ \$100,000 Annual Fiscal Cost
- ☐ 13.5.2 ≥ \$100,000 Annual Tax or Fee Change

House

- ☐ 6.8(F) ≥ \$100,000 Annual Fiscal Cost
- ☐ 6.8(G) ≥ \$100,000 Tax or Fee Increase or a Net Fee Decrease